

REPORT

To: Shetland Charitable Trust

8 September 2011

From: Financial Controller

Report: CT1109051

INVESTMENT MONITORING – SHETLAND LEASING AND PROPERTY DEVELOPMENTS LIMITED (SLAP)

1 Introduction

- 1.1 This report is intended to provide Trustees with information needed to be able to monitor the Trust's investment in SLAP. SLAP has generated profits before gift aid and deferred tax of £1.4 million in 2010/11 on an investment portfolio of £15.6 million. This has added value to the SCT group.
- 1.2 As a charity, the Trust can only make investments that HM Revenue & Customs (HMRC) have approved as 'qualifying', as defined in Schedule 20, Income and Capital taxes Act 1986. HMRC have agreed that the Trust's investment in SLAP is a qualifying investment provided that investment is made to make money, i.e. on a 'commercial' basis. Trustees have decided that this condition will be best fulfilled if the Directors of SLAP ensure that each investment is made on a commercial basis. I am content that the current returns made by SLAP on its portfolio are commercial.
- 1.3 The last annual investment monitoring report was presented to Trustees on 8 September 2010 (min ref CT58/10). Since then, Trustees have received a progress report on SLAP on 24 March 2011 (min ref CT19/11).
- 1.4 The purpose of this report is to give a little "flesh on the bones" for SLAP and in particular attempt to present the information in a "user friendly" manner. I find that the statutory accounting format is not particularly helpful when looking at a charity with a diverse range of investment activity. The statutory company accounts for companies that make returns to a charity often fail to reveal (easily) the true level of activity and profit.

2 Shetland Leasing and Property Developments Ltd

- 2.1 SLAP is a wholly owned subsidiary of the Trust; purchasing, developing and letting various properties and assets throughout

Shetland. The accounts to 31 March 2011 show net assets of £48.5 million, which includes loans of £26 million to Shetland Charitable Trust.

2.2 The Board of Directors are:

Mr J H Henry (Chair)
 Mr W H Manson (Vice Chair)
 Mr A J Cluness
 Mr A Doull
 Mr A G L Duncan
 Mrs I J Hawkins
 Mr R Henderson
 Mrs C H J Miller

2.3 The operating profit for year to 31 March 2011 is £1,404,894. After making a Gift Aid payment to the Trust of £2,709,472 and allowing for the movement in deferred tax, the final reported loss for the year is £1,306,373. As I have stated in 1.4 above, I do not think the statutory format tells the whole story. I have set out the profit and loss in a “user friendly” format, in the table below:

	2010/11	2009/10
	£	£
Operating income	2,636,109	2,756,269
Interest Receivable	599,037	262,295
Operating expenses etc	(1,830,252)	(247,346)
Operating profit	1,404,894	2,771,218
Gift Aid	(2,709,472)	(3,828,582)
Deferred Tax	(1,795)	322,746
Reported (loss) for the year	(1,306,373)	(734,618)

2.4 Trustees will note that operating expenses have increased from £272,346 in 2009/10 to £1,830,252 in 2010/11. Most of the increase is due to including a figure of £1.37 million as the first amortising down of the leasehold value of Scatsta. This needs to be set against the £4.35 million recovered to date as rent.

2.5 Gift Aid is treated as an expense in the statutory format. The Gift Aid payment in 2010/11 means that neither SLAP nor the Trust will pay tax on SLAP’s taxable profits generated in 2009/10.

2.6 SLAP’s property portfolio is set out in Appendix A. SLAP also has assets under construction at 31 March 2011, which is expenditure on the new offices at the North Ness, and the second phase of the redevelopment of Scatsta Airport (a new Air Traffic Control Tower and an extended and refurbished terminal building). There are two leasing assets, which are a Britten Norman Islander aeroplane and a vessel, the Moder Dy. Both are leased to Shetland Islands Council.

3 Business Review

- 3.1 SLAP bought the ex-WAG site at the North Ness a few years ago and Hunter & Morrisons are on site after winning the contract to build new offices there. The total cost of the whole project, including land costs, demolitions, legal and supervision fees, as well as the construction contract is £7 million. Shetland Islands Council has agreed to take a 20 year lease on the building. Hunter & Morrisons have been progressing very well with the building work.
- 3.2 SLAP completed a £3.5 million investment in Phase 1 of the re-development of Scatsta airport. A much larger hangar was built to accommodate the larger helicopters now in use, the original hangar was refurbished and the taxiways and apron were substantially resurfaced and extended. DITT have won the contract for Phase 2 of the works and are on site. This phase will include the construction of a new air traffic control tower and the extension and refurbishment of the terminal building, with a total budget of £4.5 million. SLAP's return on its investment in these buildings comes as rent under a lease to BP, who are acting on behalf of the Integrated Aviation Consortium, a joint oil industry body that oversees, and pays for, the operations at Scatsta.
- 3.3 During 2010/11, SLAP sold Laxfirth slaughterhouse on 7 April 2010, with the lairage being sold separately on 1 June 2010. SLAP received payment for the Brown's Road site on 21 July 2010. The Graven Oil Depot was sold on 15 November 2010. The Staney Hill Marts was sold on 25 March 2011.

4 SLAP (Trading) Ltd

- 4.1 SLAP (Trading) Ltd was a wholly owned subsidiary of SLAP Ltd. All activity in SLAP (Trading) has come to an end, and the company had no assets or liabilities as at 31 March 2011. The company was wound up on 21 May 2011.

5 Financial Implications

- 5.1 The long term financial planning for the Trust assumes that the local economy investments will generate an annual return of around 5% above inflation. Clearly any investments that do not achieve that return will have a negative impact on the financial health of the Trust and ultimately will reduce the annual amounts that can be paid out in charitable disbursements if the real value of the Trust is to be maintained. On the other hand, consistent returns at or above that level will benefit the Trust financially. There is a second indirect benefit to the community of successful local investments which stimulate the Shetland economy.
- 5.2 Decisions taken in 2002 meant that SLAP and SLAP (Trading) ceased to offer finance directly to businesses. The process of reconfiguring the companies to concentrate on SLAP's core property

development and asset leasing activities is complete. Although painful lessons were learnt in the five years around the millennium, SLAP has settled down to generate secure returns for the Trust. The net assets of SLAP plus cumulative profits to date now exceeds the £70 million invested in SLAP by SCT since 1981.

- 5.3 SLAP does not retain its profits, it pays them over to Shetland Charitable Trust as Gift Aid. This mechanism means that neither body pays tax on SLAP's profits. It also means that SLAP is carrying a deficit in its profit and loss reserve which was recognised in 2000 and 2002. This is now a presentational effect only and the Directors have agreed a proposal to eliminate the deficit. It is proposed to cancel half of SLAP's shares. Trustees will be formally asked to agree this at the next Trustee meeting. There is no effect on SLAP's net assets (value) as can be seen below:

	Current Balance Sheet £million	Proposed Balance Sheet £million
Reserves	(20)	15
Shares	<u>70</u>	<u>35</u>
Net Assets	<u>50</u>	<u>50</u>

The Trust is not worse off, it will still hold 100% of the shares of a £50 million company. The current presentation includes negative reserves, which is not helpful when dealing with third parties.

6 Conclusions

- 6.1 SLAP's property and leasing portfolio had another profitable year in 2010/11. Investments over the last few years (Scatsta Phase 1, Solarhus, and the Gutters Hut) along with those planned for the next two years (North Ness Offices and Scatsta phase 2) will result in a doubling of SLAP's property portfolio and the rental income thereon.
- 6.2 Investments in the local economy that successfully generate good and stable returns also benefit the community as a whole.

7 Recommendation

- 7.1 Trustees are asked to note the contents of this monitoring report.

Financial Controller
Shetland Charitable Trust
Our Ref: JPG/em/C11

Report No: CT110951
Date: 18 August 2011

APPENDIX A

SLAP Properties

March 2011

Property	Description	Tenant
Blacksness Industrial Estate	Two Industrial Units	Trou Acquaculture Scalloway Handling
66 Commercial Road	Office	Short Term let to SIC for Shetland Telecom
68 Commercial Road	Engineering Wholesaler	L.E.S.S
Commercial Road	Warehouse Workshop	HNP
72 Commercial Road	Land & Redundant Buildings in poor condition	
Fetlar Camp Site	Camp Site	Shetland Islands Council
Greenhead Base Lerwick	Port/Industrial facility	SBS, SIC and Scomi Oil Tools
FE College Phase 1 & 2 Gremista	College Buildings	Shetland Islands Council
Gremista Industrial Estate, Lerwick, Site 1	Retail unit site	G & S Flooring
Heylor Fish Factory, Heylor, Ronas Voe	Fish Factory	Vacant, sale agreed to Blueshell Mussels
Kanterstead Road, Lerwick Drycleaners	Shop Site	Mr & Mrs A J T Watt
Kanterstead Road, Lerwick Takeaway	Shop Site	Mr S Li
Lochside Stores Lochside, Lerwick	Shop	Mr M Johnson
North Atlantic Fisheries College College, Scalloway	College	Shetland Islands Council
North Staney Hill	Land	Land Bank, Housing Sites for SIC/Educational Use

APPENDIX A

Property	Description	Tenant
NE Farmers, Staney Hill Lerwick	Wholesale Warehouse	Harbro Ltd
2 North Ness	Offices	Millgaet Media Ltd
3 North Ness BioSolar Office	Office	Shetland Islands Council, HIE Shetland as Sub-Tenant
7 North Ness Gutters' Hut	Offices	Garrick Accountancy, Shaw Marketing, Viking Energy Ltd, Shetland Islands Council
Sandness Spinning Mill, Sandness	Factory Unit	Jamieson Spinning Ltd
Sandwick Woollen Mill, Hoswick, Sandwick	Factory Unit	Laurence Odie (Knitwear) Ltd
Scatsta Airport	Leased Land and Buildings	Intergrated Aviation Consortium (BP)
Scalloway Woollen Mill Park	Land	Sale agreed to Scalloway Museum
Sellaness Industrial Buildings Factory (Former Crab Factory)	Industrial Building	Mr A Mckimm
Shetland Business Innovation Centre, Gremista	Business Units	SIC Train Shetland
Tourist Information Office 107 Commercial Street	Tourist Information Office	Visit Scotland/Scottish Government
Walls Bakery and tea rooms, Walls	Bakery	C & A Hodge
Walls Shop, Walls	Shop	Mr & Mrs Smith
Weathersta Industrial Complex, Weathersta, Brae	3 workshops plus a substantial yard area	Hjatland Seafarms Ltd
Whalsay Fish Factory, Whalsay	Fish Factory	Vacant. Let agreed to Norpak Limited
WAG Site	Development Site	SIC on completion